LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7936 **DATE PREPARED:** Jan 30, 2001
BILL NUMBER: HB 1420 **BILL AMENDED:** Jan 29, 2001

SUBJECT: Local Option Income Tax for Education.

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FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) *Establishment of Local Option Income Tax for Education*- This bill allows a school corporation to adopt a local option income tax for education (LOITE). It provides that the tax applies to individuals (based on the adjusted gross income of individual taxpayers) and to corporations (based on the apportioned supplemental net income of corporations) that have net income for the taxable year.

LOITE Rates and Revenue- It provides that the tax may be imposed at a rate of not more than 0.25%. It provides that a school corporation may use the tax revenue only for the purpose of making employer contributions to the Indiana State Teachers' Retirement Fund (TRF) on behalf of the school corporation's employees who are members of that fund.

School Corporation General Fund- It specifies that the county auditor shall each year reduce the General Fund property tax levy of a school corporation receiving a distribution of LOITE by an amount equal to the amount of the distribution.

Effective Date: Upon passage.

Explanation of State Expenditures: The administration, auditing, and collection of the individual and corporate LOITE would result in an increased administrative cost to the Department of State Revenue.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) School corporations would be allowed to establish a LOITE at a rate of not more than 0.25% via the authority to adopt ordinances which either impose, rescind, increase, or decrease LOITE taxes. (A LOITE imposed by a school corporation would remain in effect until rescinded by that school corporation.)

LOITE RATES

School corporations would be allowed to impose a LOITE on individuals at a rate of not more than 0.25% based on the adjusted gross income (AGI) of the respective individual taxpayer.

In addition, school corporations would be allowed to impose a LOITE on corporations at a rate of no more than 0.25% based on the apportioned supplemental net income of the respective corporation. (Apportioned net income for each corporation would be calculated by multiplying the total supplemental net income for that corporation by the ratio of the corporation's assessed value in the district to the corporation's total statewide assessed value).

School corporations would be required to adopt both the individual LOITE and the corporate LOITE at identical rates.

LOITE REVENUE

The impact of this bill would depend upon local action. This analysis assumes that **all** 294 school corporations would adopt a LOITE , and that all appropriate ordinances would be adopted. The following numbers estimate a **total statewide impact** as a result of this bill, and are based on the December 19, 2000, Revenue Forecast.

Individual LOITE- A 0.25% individual LOITE would raise approximately $157 M for ½ of the 2002 school year (January 2002 to July 2002) and approximately $337 M for the 2003 school year (July 2002 to June 2003).

Corporate LOITE- A 0.25% corporate LOITE would raise approximately $10.5 M for ½ of the 2002 school year (January 2002 to July 2002) and approximately $21.2 M for the 2003 school year (July 2002 to June 2003).

This analysis also assumes that school corporations would adopt a LOITE as soon as possible. (This would mean an adoption of the ordinance by May 1, 2001, with the tax becoming effective on the date of July 1, 2001, resulting in the first distribution to school corporations in CY 2002.)

USE OF LOITE REVENUE

This bill would require that revenues from a school corporation's LOITE be deposited into a special account within the state General Fund, and then distributed to the school corporation not more than 30 days after the tax is deposited into the school corporation's special account. Once received, the school corporation would be allowed to utilize distributions solely for the purpose of making employer contributions to TRF (on behalf of the school corporation's member employees).

STATE PROPERTY TAX REPLACEMENT CREDITS

This bill would require that the 20% state property tax replacement credit provided through the state Property Tax Replacement Fund not be affected by this proposal. (LOITE distributions would not reduce the total county property tax levy used to compute state property tax replacement credits.) The distributions would be considered as part of a school corporation's General Fund property tax levy for purposes of fixing the school corporation's budget and for calculation of the state tuition support funding formula.

Any LOITE distributions would result in decreased property tax rates and therefore smaller property tax bills for taxpayers. (The county auditor would be required to reduce the General Fund levy of a school corporation receiving LOITE distributions.)

ELDERLY OR DISABLED CREDIT

This bill would stipulate that elderly and disabled persons be entitled to credits against their LOITE similar to the credits available for individual income taxes. The credit for the LOITE would equal the lesser of the following:

Elderly or Disabled Credit * (LOITE rate/.15); or

the amount of LOITE actually imposed on the individual taxpayer and the individual taxpayer's spouse. The impact of these credits would vary by district.

Total statewide elderly credits for 1997 and 1998 were $7,322,398 and $7,082,998 respectively.

State Agencies Affected: Department of State Revenue; State Board of Tax Commissioners.

Local Agencies Affected: School Corporations; County Auditors; County Treasurers.

Information Sources: December 19, 2000, Revenue Forecast; Department of State Revenue.